

July 22, 2003

UNITEL, Inc.
Request for Universal Service Funding

ORDER APPROVING LOCAL
RATE PLAN

WELCH, Chairman; DIAMOND and REISHUS Commissioners

I. SUMMARY

In this Order, we approve the plan filed by Unitel for its rates for local exchange service to increase to Verizon levels in two further steps, one that will be simultaneous with changes to Unitel's basic service calling areas (BSCAs), the other on June 1, 2005.

II. BACKGROUND

On March 5, 2003, in this docket, we approved universal service funding for Unitel, Inc. Chapter 288, § 3(C)(3) requires that local exchange carriers that receive universal service funding must establish "local basic service rates that are no less than those of Verizon exchanges that have Basic Service Calling Areas of a similar size." An exception contained in Section 3(C)(2) allows USF recipients to phase in those rates over no more than 3 years. We granted that exception to Unitel so that at least some of the necessary rate increases for Unitel customers would coincide with increases in local BSCAs, expected in December 2003. That change consists of the addition of all contiguous exchanges to all BSCAs, as required by December, 2002 amendments to the Commission's BSCA Rule, Chapter 204.

In the March 5 Order, we approved a proposal under which Unitel, on June 1, 2003, would increase its rates to approximately one-third of the difference between its present rates and Verizon's present rates for equivalent calling areas. Subsequently, Unitel filed rate schedules implementing those rates; those schedules became effective on June 1, 2003. On the same date, as also required by the Order, Unitel reduced its access rates to the same level as its interstate access rates that were in effect on July 1, 2002.

The Order also required Unitel, within 60 days, to file a plan for increasing its rates "the rest of the way to Verizon levels." We noted that we would approve a plan under which the Company proposed to implement rates equal to those of Verizon at the time that the BSCA changes are implemented, but that Unitel could propose and justify an alternative plan. We further noted that at the time the Company's local rates are increased, the amount the Company receives from the MUSF will decrease to offset the revenue gains resulting from the increases.

III. UNITEL'S PROPOSAL

Unitel filed a plan on May 2, 2003, which proposed two additional steps to increase local rates the rest of the way to Verizon levels. In the first step, Unitel would increase its

rates to 85% of Verizon's *present* rates at the time the BSCA changes are implemented. The expected date for this implementation is mid-December of 2003.¹ The proposed rates, compared to the current rates, are shown on the attached table.

Local Rate Changes

Basic Service Description			6/1/2003 Unitel	Proposed Increase	Proposed Rates	%
Albion 437						
Residential	Economy		9.94	4.31	14.25	43%
	Premium		13.86	2.14	16.00	15%
Business	Economy		18.52	13.48	32.00	73%
		ML	24.56	7.44	32.00	30%
	Premium		33.91	1.09	35.00	3%
		ML	33.91	1.09	35.00	3%
Newburgh 234						
Residential	Economy		10.08	4.17	14.25	10%
	Premium		14.57	1.43	16.00	41%
Business	Economy		18.62	13.38	32.00	
		ML	24.67	7.33	32.00	72%
	Premium		34.49	0.51	35.00	30%
		ML	34.49	0.51	35.00	1% 1%
Thorndike 568						
Residential	Economy		8.80	5.45	14.25	62%
	Premium		10.30	5.70	16.00	55%
Business	Economy		17.42	14.58	32.00	84%
		ML	17.42	14.58	32.00	84%
	Premium		19.44	15.56	35.00	80%
		ML	25.48	9.52	35.00	37%
Unity 948						
Residential	Economy		-	14.25	14.25	
	Premium		10.30	5.70	16.00	55%
Business	Economy		-	32.00	32.00	
		ML	-	32.00	32.00	
	Premium		19.44	15.56	35.00	80%
		ML	25.48	9.52	35.00	37%

ML = MultiLine

¹ Unitel has assumed this date to be December 15, 2003, and has filed rate schedules with that proposed effective date. If necessary, the Commission may alter the actual effective date.

The final step would take place on June 1, 2005. At that time, Unitel would increase its local rates to the Verizon rates *then* in effect.² Those rates are likely to be higher than they are now because of Verizon's BSCA changes and the possible elimination of its rate groups.³ Verizon will also need to implement a further access reduction on or before May 31, 2005, and it is possible that action would result in an increase to Verizon's local rates.⁴

We find that Unitel's proposal reasonably phases in rate increases to avoid undue rate shock, that it is reasonable to implement most of the increase at the same time that customers receive the benefit of increased local calling areas, and that the plan is consistent with the policies of Chapters 280 and 288 and with 35-A M.R.S.A. § 7101-B as amended.

IV. CHANGE IN UNIVERSAL SERVICE FUNDING

Providing that the Company's total revenue requirement authorized by the Commission remains unchanged, each time the Company's local rates are increased, the amount the Company receives from the MUSF must decrease to offset the revenue gains resulting from the local rate increases, and the Commission must order a change in the amount of USF that the Company will receive. Unitel has calculated a revenue increase of \$291,267 for the December 2003 local rate increase. Accordingly, USF for Unitel should decrease by approximately that amount, subject to possible changes in billing units, as discussed below.

The Company has also provided a calculation of its access revenue loss resulting from the BSCA expansions, as well as a net revenue change (equal to the gain in revenues from local rate increases less the estimated BSCA-related access revenue loss) that will occur at the time of the next rate increase and the implementation of the BSCA changes. The BSCA access revenue loss estimate is less certain than the estimate of the local rate revenue

² Because these rates are not now known, Unitel has not filed proposed rate schedules at this time, but should do so once Verizon's rates for June 1, 2005 are known.

³ While the elimination of rate groups, if approved by the Commission, would be on a revenue-neutral basis, the rates for the customers in areas that were in former rate groups with smaller calling areas would increase, and rates for customers in areas that formerly had rate groups with larger calling areas would decrease. Based on present knowledge, Unitel has three exchanges whose rate would need to increase and one whose rate would decrease slightly. We note that Chapter 288, § 3(D)(1) allows a USF recipient to have a rate design different from Verizon's as long as its local rates produce the same amount of revenue. Unitel has not indicated that it intends to use this provision.

⁴ The timing of Verizon's next access rate reduction is the subject of a Commission investigation. *Public Utilities Commission, Investigation of Compliance of Verizon Maine with Amended 35-A M.R.S.A. § 7101-B*, Docket No. 2003-358, Notice of Investigation (May 28, 2003). Verizon has filed a proposal to delay any further access rate reductions until May 31, 2005. A notice of an opportunity to intervene in that proceeding and to file comments about Verizon's proposal has been sent to carriers and other persons. The extent, if any, to which Verizon's rates are increased in conjunction with the access rate decrease will likely be determined in that proceeding. See *Public Utilities Commission, Order* (Post-Remand No. 1), Part 2 at 3-5, 17 n. 20 (July 14, 2003).

increase. We have recently opened dockets for all ILECs to address BSCA implementation issues. Unitel's docket number is 2003-488. Nevertheless, because Unitel has already demonstrated a need for USF, any BSCA-related revenue loss will create a need for additional USF and will be covered by the USF. Initially, that amount should be based on an estimate the Commission finds to be reasonable. The amount of USF that the company receives initially for BSCA-related revenue loss will then be subject to adjustment (and possible recovery or refund of under-recovery or over-recovery) pursuant to the Chapter 204 tracking mechanism.

We therefore believe it makes sense for ILECs, such as Unitel, that are receiving USF and that wish to include an estimate of BSCA-related revenue loss in the USF amount to file those requests and estimates in this Docket (No. 2002-712) which will also address any issues concerning the tracking account required by Chapter 204, § 5(C)(1) and possible adjustments to USF amounts pursuant to Section 5(C)(2). Unitel shall file changes to Terms and Conditions that describe BSCAs and calling options in Docket No. 2003-488. Because those pages may be the same pages that contain its new rates, it may also file rate schedules in that docket, but its cover letter(s) should indicate that they are the rates ordered by or pursuant to this docket (i.e., Docket No. 2002-712).

The Commission staff had raised a question about the reliability of the billing unit data used by Unitel for BSCA access loss because Unitel used only a single month (June 2002). Unitel has informed the Commission staff that providing annual (or annualized) access minutes would be difficult for the specific toll routes that will be eliminated when contiguous exchanges are added to the BSCAs. Unitel has agreed to provide another month's data along with information showing that it is reasonably representative of other months as well as being more current. Unitel should provide this information, and a recalculation of access revenue loss, no later than October 3, 2003. At the same time, Unitel should also provide updated access line data, and a recalculation of revenue increases that will occur as a result of the local rate increases. Following filing of that data, we will review it and modify the amount of USF that Unitel will receive.

Accordingly, we

1. APPROVE the plan filed on May 2, 2003, by Unitel, Inc. for implementing local rate increases, as required by Chapter 288, § 3(C)(3) and by prior order in this docket.
2. ORDER Unitel, Inc., no later than October 3, 2003, to file updated access revenue loss and basic service revenue gain calculations based on updated billing units. Unitel shall demonstrate that the access revenue loss calculation is reasonably representative of the annual loss that will occur due to the implementation of new BSCAs.

Dated at Augusta, Maine, this 22nd day of July, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Diamond
 Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21** days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.